

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended March 31, 2001

☐ Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____.

Commission File Number **1-12542**

UTI ENERGY CORP.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

23-2037823

(I.R.S. Employer Identification No.)

Suite 225N

16800 Greenspoint Park Drive

Houston, Texas

(Address of principal executive offices)

77060-2390

(Zip Code)

(281) 873-4111

(Registrant's telephone number, including area code)

(Former Address)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each class of registrant's common stock, as of the latest practicable date.

37,660,257 shares of Common Stock as of April 17, 2001.

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PART I FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL INFORMATION

UTI ENERGY CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(in thousands)

	<u>March 31, 2001</u>	<u>December 31, 2000</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,885	\$ 7,561
Accounts receivable, net of allowance for doubtful accounts of \$1,955 in 2001 and \$1,959 in 2000	68,582	59,482
Material and supplies	783	767
Deferred income taxes	2,142	1,957
Prepaid expenses and other	<u>4,875</u>	<u>2,387</u>
	82,267	72,154
PROPERTY AND EQUIPMENT		
Land	1,150	1,150
Buildings and improvements	3,579	3,539
Machinery and equipment	354,677	316,288
Oil and natural gas working interests	<u>1,359</u>	<u>1,359</u>
	360,765	322,336
Less accumulated depreciation and amortization	<u>91,037</u>	<u>84,049</u>
	269,728	238,287
GOODWILL, less accumulated amortization of \$5,526 in 2001 and \$5,144 in 2000	17,351	17,733
OTHER ASSETS	<u>1,446</u>	<u>1,633</u>
	<u><u>\$ 370,792</u></u>	<u><u>\$ 329,807</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 47,883	\$ 37,449
Accrued income taxes	7,873	1,331
Accrued payroll and related costs	6,788	7,056
Accrued workers compensation	3,399	3,999
Other accrued expenses	<u>3,769</u>	<u>3,730</u>
	69,712	53,565
LONG-TERM DEBT	64,000	55,000
DEFERRED INCOME TAXES	41,672	41,816
OTHER LIABILITIES	438	438
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Preferred Stock, \$.01 par value, 5,000 shares authorized, 0 shares issued or outstanding in 2001 and 2000	-	-
Common Stock, \$.001 par value, 100,000 shares authorized, 38,866 issued and 37,660 outstanding in 2001, 38,772 shares issued and 37,566 outstanding in 2000 Additional capital	38 153,931	38 152,377
Retained earnings	52,598	36,548
Accumulated other comprehensive income (loss)	(1,592)	30
Treasury Stock, 1,206 shares in 2001 and 2000, at cost	<u>(10,005)</u>	<u>(10,005)</u>
	194,970	178,988
	<u><u>\$ 370,792</u></u>	<u><u>\$ 329,807</u></u>

See notes to condensed consolidated financial statements.

UTI ENERGY CORP.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(in thousands, except per share amounts)

	Three Months Ended March 31,	
	2001	2000
REVENUES	\$ 108,390	\$ 54,273
COSTS AND EXPENSES		
Direct operating costs (excluding depreciation and amortization)	70,892	43,439
Selling, general and administrative	3,205	2,781
Other income	(117)	(95)
Depreciation and amortization	7,979	6,631
	<u>81,959</u>	<u>52,756</u>
OPERATING INCOME	26,431	1,517
OTHER INCOME (EXPENSE)		
Interest expense	(963)	(1,208)
Interest income	55	145
Other, net	33	36
	<u>(875)</u>	<u>(1,027)</u>
INCOME BEFORE INCOME TAXES	25,556	490
INCOME TAXES	<u>9,506</u>	<u>186</u>
NET INCOME	<u>\$ 16,050</u>	<u>\$ 304</u>
BASIC EARNINGS PER COMMON SHARE	<u>\$ 0.43</u>	<u>\$ 0.01</u>
DILUTED EARNINGS PER COMMON SHARE	<u>\$ 0.41</u>	<u>\$ 0.01</u>
AVERAGE COMMON SHARES OUTSTANDING		
Basic	37,599	36,116
Diluted	39,520	38,434

See notes to condensed consolidated financial statements.

UTI ENERGY CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(in thousands)

	Three Months Ended March 31,	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 16,050	\$ 304
Adjustments to reconcile net income to net cash provided by operations		
Depreciation	7,432	6,082
Amortization	547	549
Deferred income taxes	(278)	(593)
Amortization of debt discount	-	119
Tax benefit on exercised stock options	995	2,249
Gain on disposal of fixed assets	(117)	(95)
Changes in operating assets and liabilities		
Receivables and prepaids	(11,911)	(988)
Materials and supplies	(17)	(50)
Accounts payable and accruals	16,400	(813)
Other	21	(87)
Net cash provided by operating activities	29,122	6,677
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment	(25,169)	(4,236)
Acquisitions	(15,675)	-
Proceeds from sale of property and equipment	348	134
Net cash used by investing activities	(40,496)	(4,102)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from revolving credit facility	9,760	-
Repayments of revolving credit facility	(760)	-
Proceeds from exercise of stock options	559	1,217
Net cash provided by financing activities	9,559	1,217
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,815)	3,792
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	139	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	7,561	7,547
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 5,885</u>	<u>\$ 11,339</u>

See notes to condensed consolidated financial statements.

UTI ENERGY CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
March 31, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interim Financial Statements

The accompanying unaudited condensed consolidated financial statements as of March 31, 2001 have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the financial position and operating results for the interim periods have been included. The results of operations for the three months ended March 31, 2001 are not necessarily indicative of the results for the entire year ending December 31, 2001. For further information, refer to the Consolidated Financial Statements and footnotes thereto included in UTI's Annual Report on Form 10-K for the year ended December 31, 2000.

Property and Equipment

UTI capitalizes interest on borrowings during the active construction period of major capital projects. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets. For the three months ended March 31, 2001, UTI capitalized approximately \$.4 million of interest in connection with various capital projects. Capitalized interest was not significant at March 31, 2000.

Foreign Currency Translation

The U.S. dollar is the functional currency for all of UTI's operations except for UTI's Canadian operations which uses the Canadian dollar as the functional currency. The effects of exchange rate changes are reflected as a separate component of shareholders' equity.

New Accounting Pronouncement

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133). SFAS 133, as amended by Statement of Financial Accounting Standards No. 137, *Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133*, and by Statement of Financial Accounting Standards No. 138, *Accounting for Certain Derivative Instruments and Hedging Activities*, which is effective for fiscal years beginning after June 15, 2000, requires all derivatives to be recognized at fair value on the balance sheet. UTI adopted SFAS 133 on January 1, 2001. The change did not have a significant effect on UTI's financial statements.

UTI ENERGY CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
March 31, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain items in the prior period's financial statements have been reclassified to conform with the presentation in the current period.

2. ACQUISITIONS

Merger

On February 5, 2001, UTI announced that its Board of Directors along with the Board of Directors of Patterson Energy Inc. approved a merger of the two companies. According to the terms of the merger agreement between UTI and Patterson, shareholders of UTI will receive one share of Patterson common stock for each share of UTI common stock and Patterson will assume UTI's outstanding options and warrants. The board of directors of the new company will consist of eleven directors, six of which will be selected by Patterson and five of which would be selected by UTI. Although the merger agreement does not specify who will be the officers of the new company, management of UTI understands that Mark S. Siegel, UTI's Chairman of the Board, would be the Chairman of the Board and Cloyce A. Talbott, Patterson's Chairman of the Board and Chief Executive Officer, would be Chief Executive Officer. The combined company will be the second largest United States land-based drilling service contractor with 302 drilling rigs and will be called "Patterson-UTI Energy, Inc."

Under the terms of the merger agreement, both UTI and Patterson have agreed not to solicit competing offers, but the boards of directors of each company are free to consider and accept an unsolicited offer if, based on advice of counsel, it believes it must do so in the exercise of its fiduciary duty. In the event a party accepts an unsolicited offer, or the shareholders do not vote to approve the merger because of an unsolicited offer, the other party would be entitled to receive a breakup fee of \$32.5 million plus reimbursement of expenses of up to \$2.5 million. In the event the shareholders of one party do not vote to approve the merger and the other party is not in default and is ready, willing and able to perform its agreement, the party whose shareholders vote against the merger will be required to pay to the other party \$2.5 million, plus up to an additional \$2.5 million in expenses.

The merger is subject to customary conditions to closing, including approval by the shareholders of both companies, as well as any necessary regulatory filings. The shareholder's meetings are set for May 8, 2001. There can be no assurance that the merger will be consummated in accordance with the terms of the merger agreement, if at all.

UTI ENERGY CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
March 31, 2001

2. ACQUISITIONS (Continued)

Asset Acquisitions

In January 2001, UTI acquired six drilling rigs, through three separate transactions, for approximately \$15.7 million in cash.

In September 2000, UTI acquired four drilling rigs for approximately \$7.7 million in cash.

Asset Swap

On May 15, 2000, UTI, in a nonmonetary exchange of similar productive assets, acquired a drilling rig in exchange for certain drilling rig components and drill pipe with a net book value of approximately \$970,000. No gain or loss was recognized on this transaction.

Phelps Drilling International Ltd.

On May 5, 2000, UTI acquired the land drilling operations of Phelps Drilling International Ltd. for \$29.6 million in cash. Phelps' assets and operations are located in the Canadian provinces of Alberta, British Columbia and Saskatchewan. The acquisition has been accounted for under the purchase method of accounting. Phelps' operating results since May 5, 2000 have been consolidated with the operating results of UTI. The acquired assets consisted of fourteen land drilling rigs, drilling equipment and other equipment used in Phelps' land drilling business. The fair market value of the drilling rigs and related equipment was estimated and the purchase price was allocated as follows (*in thousands*):

Property and Equipment	\$ 31,170
Goodwill	-
Liabilities Assumed	<u>(1,559)</u>
Purchase Price	<u><u>\$ 29,611</u></u>

UTI ENERGY CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
March 31, 2001

3. CONTINGENCIES

UTI is involved in several claims arising in the ordinary course of business. UTI's management believes all of these claims are covered by insurance or that these matters will not have a material adverse effect on UTI's financial statements.

UTI is partially self-insured for employee health insurance claims and incurs a maximum of \$125,000 per employee under medical claims. UTI was self-insured for workers compensation for certain years prior to 2000 and incurs a maximum of \$250,000 per event for workers compensation claims. Although UTI believes that adequate reserves have been provided for expected liabilities arising from its self-insured obligations, management's estimates of these liabilities may change in the future as circumstances develop.

UTI's operations are subject to the many hazards inherent in the onshore drilling industry, such as blowouts, explosions, sour gas, well fires and spills. These hazards can result in personal injury and loss of life, severe damage to or destruction of property and equipment, pollution or environmental damage and suspension of operations. Although UTI maintains insurance protection as management deems appropriate, such insurance coverage may not provide sufficient funds to protect UTI from all liabilities that could result from its operations. Also, claims will be subject to various retentions and deductibles. While UTI has generally been able to obtain some degree of contractual indemnification from its customers in most of its dayrate drilling contracts, no such indemnification is typically available for footage or turnkey contracts. The indemnity agreements require the customers to hold UTI harmless in the event of loss of production or reservoir damage. This contractual indemnification may not be supported by adequate insurance maintained by the customer.

UTI's operations routinely involve the handling of various materials, including hazardous materials. UTI may be exposed to liability under numerous state and federal environmental laws, rules and regulations including dealing with hazardous materials. In addition, environmental laws and regulations including The Comprehensive Environmental Response, Compensation and Liability Act (also known as the "Superfund Law"), may impose strict liability whereby UTI could be liable for clean-up costs, even if the situation resulted from previous conduct of UTI that was lawful at the time conducted or from improper conduct of or conditions caused by previous property owners or other persons not associated with UTI. UTI maintains insurance coverage against some environmental liabilities, including pollution caused by sudden and accidental oil spills.

Management believes it has adequately reserved for these contingencies. Management is of the opinion that the outcome of known and potential claims will not have a material adverse effect on UTI's operations.

UTI ENERGY CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
March 31, 2001

4. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended	
	March 31,	
	2001	2000
	<i>(in thousands, except per share amounts)</i>	
<i>Numerator:</i>		
Net income	\$ 16,050	\$ 304
Denominator for basic earnings per share - weighted-average shares	37,599	36,116
Effect of dilutive securities:		
Warrants	67	629
Stock options	1,854	1,689
Dilutive potential common shares	1,921	2,318
Denominator for diluted earnings per share - adjusted weighted-average shares and assumed conversions	39,520	38,434
Basic earnings per share	\$ 0.43	\$ 0.01
Diluted earnings per share	\$ 0.41	\$ 0.01

5. COMPREHENSIVE INCOME

	Three Months Ended	
	March 31,	
	2001	2000
	<i>(in thousands)</i>	
Net income	\$ 16,050	\$ 304
Other comprehensive loss:		
Foreign currency translation	(1,622)	-
Comprehensive income	\$ 14,428	\$ 304

UTI ENERGY CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
March 31, 2001

6. INDUSTRY SEGMENT INFORMATION

UTI has two reportable segments: land drilling and pressure pumping. UTI's reportable segments are business units that offer different services.

UTI evaluates performance and allocates resources based on profit or loss from operations before other income (expense) and income taxes. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

The other category in the segment breakdown is attributable to investments in oil and natural gas properties. This segment has not met the quantitative thresholds for determining reportable segments. There are no intersegment sales and transfers.

	Three Months Ended	
	March 31,	
	2001	2000
	<i>(in thousands)</i>	
<i>Revenues:</i>		
Land Drilling	\$ 100,996	\$ 50,044
Pressure Pumping	7,337	4,180
Other	57	49
	<u>\$ 108,390</u>	<u>\$ 54,273</u>
<i>Selling, General and Administrative:</i>		
Land Drilling	\$ 1,180	\$ 782
Pressure Pumping	918	858
Other	-	-
	2,098	1,640
Corporate	1,107	1,141
	<u>\$ 3,205</u>	<u>\$ 2,781</u>
<i>Operating Income:</i>		
Land Drilling ⁽¹⁾	\$ 25,825	\$ 2,446
Pressure Pumping ⁽¹⁾	1,637	180
Other ⁽¹⁾	34	23
	27,496	2,649
Corporate	(1,182)	(1,227)
Other Income	117	95
	<u>\$ 26,431</u>	<u>\$ 1,517</u>

UTI ENERGY CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
March 31, 2001

6. INDUSTRY SEGMENT INFORMATION (Continued)

	Three Months Ended	
	March 31,	
	2001	2000
	<i>(in thousands)</i>	
<i><u>Depreciation and Amortization:</u></i>		
Land Drilling	\$ 7,505	\$ 6,129
Pressure Pumping	387	404
Other	<u>12</u>	<u>12</u>
	7,904	6,545
Corporate	<u>75</u>	<u>86</u>
	<u><u>\$ 7,979</u></u>	<u><u>\$ 6,631</u></u>
<i><u>Acquisitions of Property and Equipment:</u></i>		
Land Drilling	\$ 23,421	\$ 3,973
Pressure Pumping	1,734	254
Other	<u>-</u>	<u>-</u>
	25,155	4,227
Corporate	<u>14</u>	<u>9</u>
	<u><u>\$ 25,169</u></u>	<u><u>\$ 4,236</u></u>
	March 31,	December 31,
	2001	2000
<i><u>Segment Assets:</u></i>		
Land Drilling	\$ 341,821	\$ 306,246
Pressure Pumping	18,264	16,114
Other	<u>142</u>	<u>169</u>
	360,227	322,529
Corporate	<u>10,565</u>	<u>7,278</u>
	<u><u>\$ 370,792</u></u>	<u><u>\$ 329,807</u></u>

(1) Operating income is total operating revenues less operating expenses, depreciation and amortization and does not include general corporate expenses, interest income (expense), other income or income taxes.

UTI ENERGY CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
March 31, 2001

6. INDUSTRY SEGMENT INFORMATION (Continued)

The following tables set forth financial information with respect to UTI's operations by geographic area:

	Three Months Ended March 31,	
	2001	2000
	<i>(in thousands)</i>	
<i><u>Revenues:</u></i>		
United States	\$ 98,064	\$ 54,273
Canada	10,326	-
	<u>\$ 108,390</u>	<u>\$ 54,273</u>
	March 31,	December 31,
	2001	2000
<i><u>Long-Term Assets:</u></i>		
United States	\$ 253,466	\$ 225,195
Canada	35,059	32,458
	<u>\$ 288,525</u>	<u>\$ 257,653</u>
<i><u>Goodwill:</u></i>		
United States	\$ 17,351	\$ 17,733
Canada	-	-
	<u>\$ 17,351</u>	<u>\$ 17,733</u>

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

UTI Energy Corp. is a leading provider of onshore contract drilling services to companies that explore for and produce oil and natural gas. UTI operates one of the largest fleets of drilling rigs used to drill oil and natural gas wells on land in North America. As of April 17, 2001, UTI had a fleet of 150 land drilling rigs. A drilling rig includes the structure, power source and machinery necessary to allow a drill bit to penetrate rock to a depth desired by the customer. UTI's drilling rigs operate in the oil and natural gas producing basins of:

- Louisiana
- New Mexico
- Oklahoma
- Texas
- Western Canada (Alberta, British Columbia and Saskatchewan)

UTI also provides pressure pumping services in the Appalachian Basin. Pressure pumping services consist primarily of well stimulation and cementing for the completion of new wells and remedial work on existing wells. Well stimulation involves processes inside a well designed to enhance the flow of oil, natural gas or other desired substances from the well. Cementing is the process of inserting material between the hole wall and the pipe to center and stabilize the pipe in the hole.

UTI operates principally in two business segments: drilling oil or natural gas wells on land and pressure pumping. Financial information and other disclosures relating to these business segments are provided in the Notes to Condensed Consolidated Financial Statements.

Beginning in 1995, UTI decided to expand its land drilling operations. Management of UTI made this decision to take advantage of:

- improving market conditions
- benefits arising from a consolidation in the land drilling industry

To effect this strategy, UTI disposed of its oilfield distribution business in September 1995 and embarked on an acquisition program aimed at expanding UTI's presence in the oil and natural gas producing regions in the United States. Under this strategy, UTI has acquired 132 rigs since 1995. During this same time period, UTI disposed of nine rigs primarily in the Appalachian Basin.

On May 5, 2000, UTI acquired the land drilling operations of Phelps Drilling International Ltd. for \$29.6 million in cash. Phelps' assets are located in the Canadian provinces of Alberta, British Columbia and Saskatchewan. The acquired assets consisted of fourteen land drilling rigs and other assets used in Phelps' land drilling business. The acquisition allowed UTI to enter the Canadian market.

UTI acquired an additional five land drilling rigs in the United States during 2000 through three separate transactions and an additional six land drilling rigs in the United States during 2001 through three separate transactions. The acquisitions provide UTI with additional capacity. In 2001, one of the acquired rigs and an existing rig were deployed to the Canadian market.

UTI's results for the three months ended March 31, 2001 reflect a strong improvement in market conditions in the North American land drilling markets resulting from an increase in demand for drilling services. Fleet utilization was 76% for the three months ended March 31, 2001 compared to 58% for the three months ended March 31, 2000.

On February 5, 2001, UTI announced that its Board of Directors along with the Board of Directors of Patterson Energy Inc. approved a merger of the two companies. According to the terms of the merger agreement between UTI and Patterson, shareholders of UTI will receive one share of Patterson common stock for each share of UTI common stock and Patterson will assume UTI's outstanding options and warrants. The board of directors of the new company will consist of eleven directors, six of which will be selected by Patterson and five of which would be selected by UTI. Although the merger agreement does not specify who will be the officers of the new company, management of UTI understands that Mark S. Siegel, UTI's Chairman of the Board, would be the Chairman of the Board and Cloyce A. Talbott, Patterson's Chairman of the Board and Chief Executive Officer, would be Chief Executive Officer. The combined company will be the second largest United States land-based drilling service contractor with 302 drilling rigs and will be called "Patterson-UTI Energy, Inc."

Under the terms of the merger agreement, both UTI and Patterson have agreed not to solicit competing offers, but the boards of directors of each company are free to consider and accept an unsolicited offer if, based on advice of counsel, it believes it must do so in the exercise of its fiduciary duty. In the event a party accepts an unsolicited offer, or the shareholders do not vote to approve the merger because of an unsolicited offer, the other party would be entitled to receive a breakup fee of \$32.5 million plus reimbursement of expenses of up to \$2.5 million. In the event the shareholders of one party do not vote to approve the merger and the other party is not in default and is ready, willing and able to perform its agreement, the party whose shareholders vote against the merger will be required to pay to the other party \$2.5 million, plus up to an additional \$2.5 million in expenses.

The merger is subject to customary conditions to closing, including approval by the shareholders of both companies, as well as any necessary regulatory filings. The shareholder's meetings are set for May 8, 2001. There can be no assurance that the merger will be consummated in accordance with the terms of the merger agreement, if at all.

Results of Operations

UTI believes the number of land rigs actively drilling in the United States indicates the overall strength of the United States oilfield service industry. Without giving effect to acquisitions, variations in UTI's revenues and gross margins generally follow trends in the United States rig count.

The following table presents certain results of operations data for UTI and the average United States rig count as reported by Baker Hughes Inc.⁽¹⁾ for the periods indicated:

	Three Months Ended March 31,	
	2001	2000
	<i>(dollars in thousands)</i>	
<u>Contract Drilling:</u>		
Revenues	\$ 100,996	\$ 50,044
Direct operating costs (excluding depreciation and amortization)	\$ 66,486	\$ 40,687
Selling, general and administrative	\$ 1,180	\$ 782
Depreciation and amortization	\$ 7,505	\$ 6,129
Operating days ⁽²⁾	10,171	6,627
Average revenue per operating day	\$ 9.93	\$ 7.55
Average direct operating costs (excluding depreciation and amortization) per operating day	\$ 6.54	\$ 6.14
Average margin per operating day ⁽³⁾	\$ 3.39	\$ 1.41
Average U.S. land rig count	966	636
Number of owned rigs at end of period	150	125
Average number of rigs owned during period	149	125
Average rigs operating	113	73
Rig utilization percentage ⁽⁴⁾	76%	58%
Capital expenditures	\$ 23,421	\$ 3,973
<u>Pressure Pumping:</u>		
Revenues	\$ 7,337	\$ 4,180
Direct operating costs (excluding depreciation and amortization)	\$ 4,395	\$ 2,738
Selling, general and administrative	\$ 918	\$ 858
Depreciation and amortization	\$ 387	\$ 404
Total jobs	968	653
Average revenue per job	\$ 7.58	\$ 6.40
Average direct operating costs (excluding depreciation and amortization) per job	\$ 4.54	\$ 4.19
Average margin per job ⁽³⁾	\$ 3.04	\$ 2.21
Capital expenditures	\$ 1,734	\$ 254

	Three Months Ended March 31,			
	2001		2000	
	<i>(dollars in thousands)</i>			
<u>Other and Corporate:</u>				
Revenues	\$	57	\$	49
Direct operating costs (excluding depreciation and amortization)	\$	11	\$	14
Selling, general and administrative	\$	1,107	\$	1,141
Depreciation and amortization	\$	87	\$	98
Capital expenditures	\$	14	\$	9

- (1) Baker Hughes, Inc. is an international oilfield service and equipment company. For more than twenty years, it has conducted and published a weekly census of active drilling rigs. Its active rig count is generally regarded as an industry standard for measuring industry activity levels.
- (2) An operating day is defined as a day during which a rig is being operated, mobilized, assembled or dismantled while under contract.
- (3) Average margin represents average revenues minus average direct operating costs and excludes provisions for bad debts, other charges, depreciation and amortization and selling, general and administrative expenses.
- (4) Utilization rates are calculated by dividing the operating days by the total available days. Available days are calculated by multiplying rigs owned by the days in the period under review.

Comparison of Three Months Ended March 31, 2001 and 2000

Revenues by business segment for the three months ended March 31, 2001 and 2000 are as follows:

	Three Months Ended March 31,		%
	2001	2000	Increase
	<i>(in thousands)</i>		
<u>Revenues:</u>			
Land Drilling	\$ 100,996	\$ 50,044	101.8
Pressure Pumping	7,337	4,180	75.5
Other	<u>57</u>	<u>49</u>	16.3
	<u>\$ 108,390</u>	<u>\$ 54,273</u>	99.7

Revenues increased for the three months ended March 31, 2001 from the three months ended March 31, 2000 as a result of improved market conditions. These improved market conditions resulted in:

- higher utilization rates in land drilling, 76% for the three months ended March 31, 2001 compared to 58% for the same period in 2000
- higher rates for land drilling services, average revenue per day of \$9,900 for the quarter ended March 31, 2001 compared to \$7,600 for the quarter ended March 31, 2000
- higher rates for pressure pumping services, average revenue per job of \$7,600 for the quarter ended March 31, 2001 compared to \$6,400 for the quarter ended March 31, 2000

The land drilling revenue increase is also attributable to revenue generated from recent acquisitions. Acquisitions completed since March 31, 2000 generated an additional \$14.5 million of revenue in the three months ended March 31, 2001.

Direct operating costs, excluding depreciation and amortization, by business segment for the three months ended March 31, 2001 and 2000 are as follows:

	Three Months Ended March 31,		%
	2001	2000	Increase (Decrease)
	<i>(in thousands)</i>		
Direct Operating Costs (excluding depreciation and amortization):			
Land Drilling	\$ 66,486	\$ 40,687	63.4
Pressure Pumping	4,395	2,738	60.5
Other	<u>11</u>	<u>14</u>	(21.4)
	<u>\$ 70,892</u>	<u>\$ 43,439</u>	63.2

The percentage increase in direct operating costs (excluding depreciation and amortization) is lower than the percentage increase in revenues due to rates increasing more than costs as a result of improved market conditions.

Selling, general and administrative expenses increased \$.4 million during the three months ended March 31, 2001 compared to the three months ended March 31, 2000. The increase is due to acquisitions consummated during 2000 and due to additional support services needed as a result of the increase in revenue generating activity. Selling, general and administrative expenses as a percent of revenue has decreased to 3.0% for the three months ended March 31, 2001 compared to 5.1% for the same period of 2000.

Depreciation and amortization expense increased \$1.3 million during the three months ended March 31, 2001, compared to the three months ended March 31, 2000, primarily due to acquisitions consummated during 2001 and 2000.

Interest expense decreased \$.2 million during the quarter ended March 31, 2001 compared to the quarter ended March 31, 2000. This decrease is attributable to \$.4 million in capitalized interest in the quarter ended March 31, 2001 compared to no capitalized interest in the same period of 2000. While outstanding debt increased, the effective interest rate declined. Average debt outstanding was \$59.4 million during the quarter ended March 31, 2001 compared to \$32.2 million for the quarter ended March 31, 2000. The effective interest rate was 9.0% for the quarter ended March 31, 2001 compared to 15.0% for the quarter ended March 31, 2000.

Income taxes increased \$9.3 million during the quarter ended March 31, 2001, compared to the quarter ended March 31, 2000, primarily due to higher taxable income in 2001.

Liquidity and Capital Resources

Working Capital

Historically, UTI has needed cash:

- to fund working capital requirements
- to make capital expenditures to replace and expand its drilling rig fleet
- for acquisitions

UTI has funded ongoing operations through:

- available cash
- cash provided from operations
- borrowings

To date, UTI has funded acquisitions with:

- available cash
- borrowings
- issuances of common stock and warrants to purchase common stock

Operations provided net cash of \$29.1 million in the first three months of 2001 and \$6.7 million in the first three months of 2000. UTI used these funds along with available cash balances on hand to fund capital expenditures and acquisitions. Capital expenditures, excluding acquisitions, were \$25.2 million for the three months ended March 31, 2001 and \$4.2 million for the three months ended March 31, 2000. In January 2001, UTI acquired six drilling rigs, through three separate transactions, for approximately \$15.7 million in cash.

UTI's working capital at March 31, 2001 was \$12.6 million compared to \$18.6 million at December 31, 2000. The decrease is attributable to UTI's use of cash for long-term assets, primarily drilling rigs.

At March 31, 2001, UTI had available borrowings of \$30.3 million under its revolving credit facility compared to \$39.3 million of available borrowings at December 31, 2000. The maximum borrowing amount under the revolving credit facility is \$90.0 million. During 2001, UTI made additional borrowings under its revolving credit facility for acquisitions of drilling rigs.

Long Term Debt Facilities

As of March 31, 2001, UTI had outstanding debt of \$64.0 million comprised of \$59.7 million under the revolving credit facility and \$4.3 million of notes associated with an acquisition completed in 1998.

Revolving Credit Facility. On November 22, 1999, UTI entered into a \$65.0 million revolving credit facility. The initial term of the facility is for four years with automatic annual renewals thereafter unless terminated by either party. An early termination fee applies if UTI terminates before the four year anniversary date. The maximum borrowings under this revolving credit facility was increased to \$75.0 million in May of 2000 and was further increased to \$90.0 million in October of 2000. UTI incurs a fee of .375% per annum on the unused facility amount. Under the revolving credit facility, UTI may use up to \$10.0 million for letters of credit. The amount used for letters of credit decreases the borrowing base of the facility. At March 31, 2001, UTI has a \$2.6 million standby letter of credit issued under the facility. The revolving credit facility calls for periodic interest payments at a floating rate ranging from LIBOR plus 1.75% to LIBOR plus 2.75%. The actual rate charged above LIBOR (1.75% at March 31, 2001) is based on UTI's trailing twelve-month EBITDA. UTI's assets secure the facility.

Promissory Notes. On July 31, 1998, UTI issued \$7.8 million principal amount of unsecured promissory notes. An early principal repayment of \$3.5 million became payable because the average trading value of UTI's common stock for thirty consecutive days exceeded \$15.00 per share on March 9, 2000. The repayments were funded by long-term borrowings under the revolving credit facility. The notes bear interest at 7.0% and, except for the \$3.5 million discussed above, mature on July 31, 2002. The notes were issued in connection with an acquisition.

Future Acquisitions and Capital Needs

Management believes UTI will be able to meet its working capital, capital expenditure and debt service requirements for the next twelve months by using:

- internally generated cash
- availability under the revolving credit facility
- cash balances on hand

Management believes that UTI's strong liquidity position will allow it to react quickly to opportunities in the land drilling industry. These opportunities could include making strategic acquisitions.

Risks Associated with Forward-Looking Statements

From time to time, UTI may make certain statements that contain "forward-looking" information. Forward-looking statements speak to the future. The following words and similar expressions are intended to identify forward-looking statements:

- anticipate
- believe
- could
- estimate
- expect
- intend
- may
- plan
- predict
- project
- will

Forward-looking statements may be made by management both orally or in writing. Written forward-looking statements may appear:

- in press releases
- as part of the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained in this report
- in UTI’s other filings with the Securities and Exchange Commission

UTI believes that the expectations reflected in these forward-looking statements are reasonable. However, UTI cannot give any assurance that such expectations will materialize. These forward-looking statements are subject to:

- risks
- uncertainties
- assumptions

If any of these risks, uncertainties or assumptions materialize, actual results of current and future operations may not be as expected. Therefore, readers should not place undue certainty on these forward-looking statements. These forward-looking statements speak only as of their dates.

Among the factors that will directly affect UTI’s results of operations and the contract drilling service industry are:

- changes in the price of oil and natural gas
- the volatility of the contract drilling service industry
- UTI’s ability to successfully integrate recent acquisitions
- presence of competitors with greater financial resources
- labor shortages
- contractual risk associated with turnkey and footage contracts
- operating risks inherent in the contract drilling service industry, such as blowouts, explosions, sour gas, well fires and spills
- domestic and worldwide political stability and economic growth
- risks associated with UTI’s successful execution of internal operating plans
- regulatory uncertainties
- legal proceedings
- drill pipe shortages
- exposure to environmental liabilities
- currency risk factors

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

UTI's exposure to market risk for changes in interest rate and it's exposure to foreign exchange risk has not changed materially since December 31, 2000.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

UTI is involved in several claims arising in the ordinary course of business. In the opinion of management, all of these claims are covered by insurance or will not have a material adverse effect on UTI's financial position.

UTI and its operating subsidiaries are sometimes named as a defendant in litigation usually relating to personal injuries alleged to result from negligence. UTI maintains insurance coverage against such claims to the extent deemed prudent by management.

There can be no assurance that UTI will be able to maintain adequate insurance at rates it considers reasonable and there can be no assurance that insurance will continue to be available on terms as favorable as those that currently exist. The occurrence of an adverse claim in excess of the coverage limits maintained by UTI could have a material adverse effect on UTI's financial condition and results of operations.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit Number	Title or Description
None.	

(b) Reports on 8-K

To report a Merger Agreement, pursuant to Item 5 of Form 8-K, UTI filed a Form 8-K with the Securities and Exchange Commission dated February 5, 2001.

To report an Underwriting Agreement, pursuant to Item 5 of Form 8-K, UTI filed a Form 8-K with the Securities and Exchange Commission dated January 10, 2001.

To report Asset Purchase Agreements, pursuant to Item 5 of Form 8-K, UTI filed a Form 8-K with the Securities and Exchange Commission dated January 5, 2001.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, UTI has duly caused this report to be signed on its behalf by the undersigned, who have been duly authorized.

UTI ENERGY CORP.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ John E. Vollmer III</u> John E. Vollmer III	Senior Vice President, Treasurer and Chief Financial Officer (Principal Financial Officer)	<u>April 18, 2001</u>
<u>/s/ Bruce Sauers</u> Bruce Sauers	Vice President and Corporate Controller (Principal Accounting Officer)	<u>April 18, 2001</u>